

## Message Text

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TAGS: ECRP, BE

SUBJECT: BELGIAN ECONOMIC TRENDS

REF: BRUSSELS A-77

1. THE EMBASSY'S SEMI-ANNUAL ECONOMIC TRENDS REPORT, SENT TO WASHINGTON LAST WEEK UNDER THE REFAIR, DESCRIBES BELGIUM'S SITUATION AT WHAT MAY BE THE BEGINNING OF A PIVOTAL PERIOD IN THE ECONOMIC LIFE OF THIS COUNTRY. IN THE INTEREST OF TIMING AND WIDER DISTRIBUTION, WE ARE CABLING THE FOLLOWING SUMMARY SECTION OF THE REPORT FOR INTERESTED READERS IN WASHINGTON AND NEIGHBORING POSTS AND MISSIONS.

2. BELGIUM HAS BEGUN 1976 WITH ENCOURAGING SIGNS OF ECONOMIC REVIVAL. INTERNAL AND FOREIGN DEMAND IS EXPANDING FASTER THAN EXPECTED. THE GOVERNMENT IS NOW PREDICTING A REAL GNP UNCLASSIFIED

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GROWTH RATE OF 2.7 PERCENT FOR THIS YEAR, AND COULD REVISE THE FORECAST UPWARD. THE RECOVERY IS STILL FAR FROM COMPLETE,

HOWEVER,MEASURED AGAINST THE SEVERE EFFECTS IN BELGIUM OF LAST YEAR'S RECESSION. IT IS BASED ON INVENTORY RESTOCKAGE AND IS HIGHLY UNEVEN SO FAR. SOME KEY SECTORS SUCH AS AUTOMOBILE ASSEMBLY,CHEMICALS AND TEXTILES ARE RECOVERING WELL. ACTIVITY IN OTHERS SUCH AS STEEL AND NON-FERROUS METALS IS INCREASING MORE SLOWLY. THE IMPORTANT METAL WORKING INDUSTRY WILL PROBABLY REMAIN DEPRESSED THROUGHOUT THE YEAR. THESE DIFFERENCES EXPLAIN THE SLOW PACE OF IMPROVEMENT IN OVERALL UTILIZATION OF PLANT CAPACITY SO FAR THIS YEAR. THERE IS ALSO LITTLE HOPE FOR SIGNIFICANT PROGRESS AGAINST UNEMPLOYMENT BEFORE THE YEAR'S END. BUSINESS AND CONSUMER CONFIDENCE REMAINS FRAGILE AS REFLECTED IN UNCERTAIN PROSPECTS FOR INVESTMENT AND CONTINUING UNEASINESS OVER INFLATION AND THE STABILITY OF THE BELGIAN FRANC.

3. INFLATION IN BELGIUM HAS BEEN HIGHER THAN THAT OF ITS CHIEF EUROPEAN NEIGHBORS. IT HAS CREATED COST PRESSURES WHICH, IF CONTINUED, COULD PROVE VERY TROUBLESOME FOR BELGIAN EXPORT COMPETITIVENESS. IT HAS ALREADY LOWERED INTERNATIONAL CONFIDENCE IN THE FRANC, WHICH HAS SUFFERED SEVERE EXCHANGE PRESSURES TWICE ALREADY IN 1976. THE GOVERNMENT HAS LIMITED SCOPE, HOWEVER, FOR DEALING WITH THE PROBLEM BY TRADITIONAL DEMAND-MANAGEMENT MEANS. EVEN AFTER RECENT ATTEMPTS TO REDUCE EXPENSES, THE NATIONAL BUDGET WILL HAVE AN ESTIMATED 1976 OPERATING DEFICIT OF BF 30-35 BILLION. A BUDGET DEFICIT IS ALSO LIKELY IN 1977, IMPLYING PRESSURE AS WELL THROUGH NEXT YEAR FOR EXPANSIONARY MONETARY POLICIES TO SUPPORT THE TREASURY AS WELL AS ECONOMIC RECOVERY. OTHER MEASURES, SUCH AS PARTIAL PRICE FREEZES LAST YEAR, INCOME LIMITATIONS THIS YEAR, AND A NEW PRICE INDEX, ARE NOT EXPECTED TO HAVE A MAJOR EFFECT. THE OUTLOOK FOR BELGIAN PRICES IN 1976 RATHER RESTS ESSENTIALLY ON POSSIBLE PRODUCTIVITY GAINS, WAGE AND PROFIT DISCIPLINE, AND THE TREND IN WORLD RAW MATERIALS PRICES. ON AN ANNUAL BASIS, PRICES MAY RISE THIS YEAR AT A RATE CLOSE TO OR SLIGHTLY BELOW LAST YEAR'S PERFORMANCE OF PLUS 11 PERCENT.

4. THE CURRENT BELGIAN BALANCE-OF- PAYMENTS POSITION IS SOUND WITH A SMALL SURPLUS IN 1975. THE BALANCE HAS BEEN GRADUALLY DETERIORATING, HOWEVER, PRIMARILY DUE TO THE RECESSION. FOR 1976, BELGIAN PLANNERS PREDICT THAT IT WILL BE ROUGHLY IN  
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EQUILIBRIUM. THIS FORECAST COULD BE UPSET IF TRADE FLOWS ARE NOT AS FAVORABLE AS EXPECTED OR BY CONTINUING HEAVY CENTRAL BANK EXCHANGE INTERVENTION IN DEFENSE OF THE FRANC. THE LATTER FACTOR NOTWITHSTANDING, THE GOVERNMENT REMAINS DETERMINED TO DEFEND THE FRANC'S CURRENT PARITY. OFFICIALS ARGUE THAT IN BELGIUM'S CIRCUMSTANCES A DEVALUATION WOULD RESULT IN IMMEDIATELY HIGHER IMPORT PRICES WITH ONLY DELAYED AND VERY TEMPORARY GAINS ON THE EXPORT SIDE. ADHERENCE TO THIS POLICY THROUGH 1976 WILL, HOWEVER, DEPEND LARGEMLY ON THE FUTURE PACE OF

BELGIAN INFLATION AND CONSEQUENT EFFECTS PERCEIVED FOR THE BALANCE OF PAYMENTS.

5. THE BEGINNING OF ECONOMIC REVIVAL IN BELGIUM IS A POSITIVE DEVELOPMENT IN TERMS OF GENERAL US-WEST EUROPEAN ECONOMIC RELATIONS COMMERCIALLY, IT SHOULD ARREST LAST YEAR'S 5 PERCENT DECLINE IN US EXPORTS TO THE BELGIUM-LUXEMBOURG ECONOMIC UNION (BLUE). OVER THE LONGER TERM, US EXPORTS TO THE BLUE HAVE BEEN ON A GROWTH PATH; THIS TREND COULD REASSERT ITSELF IN 1976 WITH FRESH TRADE OPPORTUNITIES IN A NUMBER OF AREAS. THESE INCLUDE RAW MATERIALS AND CERTAIN TYPES OF CAPITAL AND CONSUMER GOODS. THERE WILL BE PARTICULAR DEMAND FOR US INDUSTRIAL SECURITY SYSTEMS, LABORATORY INSTRUMENTS, POLLUTION CONTROL INSTRUMENTATION, HEALTH-CARE EQUIPMENT, FOOD PROCESSING MACHINERY, AVIONICS, AND PROCESS CONTROL INSTRUMENTATION. THE BELGIAN INVESTMENT CLIMATE IS SOMEWHAT LESS FAVORABLE FOR THE MOMENT, WITH SOME ADVERSE INVESTOR REACTION TO COST AND LABOR PROBLEMS OF RECENT MONTHS. NEVERTHELESS, BELGIUM'S AMPLE PHYSICAL FACILITIES AND THE GOVERNMENT'S POSITIVE ATTITUDE TOWARD FOREIGN INVESTMENT CAN STILL BE DETERMINING FACTORS IN MANY CASES. AT THE SAME TIME, BELGIAN INDUSTRIAL INVESTMENT IN THE US COULD QUICKEN THIS YEAR IN RESPONSE TO THE CURRENT RAPID IMPROVEMENT OF AMERICAN ECONOMIC PERFORMANCE VIS-A-VIS THAT OF WESTERN EUROPE.

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